



MASTERPLAST PLC.
MANAGEMENT AND BUSINESS REPORT 2021

Company registration number: 07-10-001342
Tax number: 13805300-4-07

Company: Masterplast Nyrt.
Company address: 8143 Sárszentmihály, Árpád u. 1/a.

MANAGEMENT AND BUSINESS REPORT

Business year: 1 January 2021 – 31 December 2021

Sárszentmihály, 28 April 2022



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CEO

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Introduction

This annual report presents an analysis of the Corporate Group's results and all other information necessary to evaluate its operation, including the directions of expected development along with the associated risks, the introduction of management as well as research and development activities and corporate social responsibility.

Short summary of business data

The Company's registered seat is at: Árpád u. 1/a., 8143 Sárszentmihály, Hungary.

Masterplast Ltd. was founded by individuals in 1997 with the purpose of selling building materials and was transformed into a private company limited by shares on 29 September 2006 through reorganisation. In order to enter the stock market, it was transformed into a public company limited by shares on 20 April 2011. Its shares were technically introduced at the Budapest Stock Exchange on 29 November 2011.

Owing to the dynamic growth in the period since its foundation, the Company's principal activity today is the management of its subsidiaries and properties, however it is also involved in real estate management. As an asset manager the Company hold investments in subsidiaries of the Masterplast Group thus changes in the construction industry have a significant impact on the Company's profitability through the profitability and capital structure of its subsidiaries.

The Company's real estate management activity is linked to its properties in Sárszentmihály and Kál. The Company owns several buildings and other properties in these two locations, which are rented primarily to the Company's subsidiaries but also – to a lesser extent – to third parties independent from the Group.

In addition of the above the Company grants intercompany loans to its subsidiaries, obtains bank loans for the Group and signs purchasing contracts in the name of the Group. Group management as well as employees carrying out various group-level activities are employed by Masterplast Nyrt. As a consequence group-level functions are supervised by the Company, thus it is the Company that manages the Group.

The most important data of the balance sheet included in the supplement – prepared in accordance with the International Financial Reporting Standards (IFRS) as approved and implemented by the European Union (EU) - are as follows:

1. Annual domestic net sales: HUF 755,788 thousands (2020: HUF 780,286 thousands)
2. The Company has an annual operation loss of HUF 626,403 thousands (2020: HUF 611,522 thousands), while it has profit before tax of HUF 918,354 thousands (2020: HUF 292,796 thousands)
3. Total assets amount to HUF 27,825,111 thousands (2020: HUF 28,611,199 thousands).
4. Equity was HUF 3,501,852 thousands (2020: HUF 4,599,701), while share capital was HUF 1,460,128 thousands, which does not changed compared to the 2020 year.

Financial and other management indicators

| Name of the indicators and their calculation | | 2021 | 2020 |
|---|---|-------------|-------------|
| Ratio of non-current assets | <u>Non-current assets</u> Total assets | 0,85 | 0,60 |
| Equity ratio | <u>Equity</u> Total equity and liabilities | 0,13 | 0,16 |
| Liquidity indicator I. | <u>Current assets</u> Current liabilities | 1,25 | 1,06 |
| Liquidity indicator II. | <u>Cash and cash equivalents</u> Current liabilities | 0,91 | 0,96 |
| Efficiency of equity | <u>Profit for the year</u> Equity | 0,27 | 0,08 |
| Operating Efficiency | <u>Operating profit/(loss)</u> Equity | 0,18 | 0,13 |

Distribution of Share Capital

Share capital consists of 14,601,279 registered ordinary shares each with a face value of HUF 100. Shares are issued in the form of dematerialised shares.

ISIN identification number: HU0000093943

| | | 2021 | 2020 |
|--------------|----------------------------|--------------------------|--------------------------|
| 1 | Tibor Dávid | 454 805 700 HUF | 454 805 700 HUF |
| 2 | Ács Balázs | 387 725 900 HUF | 387 725 900 HUF |
| 3 | OTP Alapkezelő | n.a* | 93 676 200 HUF |
| 4 | LPH Kft., SOH Kft. | 79 886 900 HUF | 79 886 900 HUF |
| 5 | Additional minority owners | 504 226 300 HUF | 420 012 800 HUF |
| 6 | Repurchased shares | 33 483 100 HUF | 24 020 400 HUF |
| Total | | 1 460 127 900 HUF | 1 460 127 900 HUF |

* Identified among minority owners in 2021

Voting rights and voting

Every ordinary shareholder is entitled to one vote. Only the shareholders registered in the share register before the General Meeting entitled to take part at the General Meeting with a voting right.

The General Meeting passes its decisions with simple majority of votes, except when a three quarters majority of the submitted votes is required for a decision under the Act on Business Organisations.

If the General Meeting decides to change a decision made by the Board of Directors, the decision modifying the original decision is only valid subject to approval by the shareholders in attendance.

Board of Directors

It is the Company's final decision-making body except in matters that are within the general meeting's competence. Its activities are governed by the Company's Statutes, the general meeting's decisions and the

effective laws. Pursuant to the Statutes, the Board of Directors comprises five members elected by the Annual General Meeting.

Members of the Board of Directors on 31 December 2021:

- Dávid Tibor – Chairman
- Balázs Ács – Deputy Chairman
- Dezse Margaret – Independent member
- Dirk Theuns – Independent member
- Sinkó Ottó – Independent member

Audit Committee

The General Meeting and the independent members of the Board of Directors have created a three-member Audit Committee to carry out the powers defined in the Company Act and the Capital Market Act.

Members of the Audit Committee:

- Dezse Margaret
- Dirk Theuns
- Sinkó Ottó

The Audit Committee is responsible for:

- a) commenting on the annual financial statements drawn up according to the accounting act;
- b) making recommendations on the identity and remuneration of the Auditor;
- c) preparing the contract to be concluded with the Auditor and signing the contract on behalf of the publicly traded company based on the powers conferred by the Statutes;
- d) monitoring the professional requirements that apply to the Auditor and adherence to conflict of interest requirements, performing functions related to cooperating with the Auditor and, if applicable, recommending measures for the Board of Directors;
- e) evaluating the functioning of the financial reporting system and recommending necessary measures;
- f) assisting the Board of Directors in its work to exercise of adequate control over the financial reporting system;
- g) supervising and managing internal audit work.

Internal audit

The Company has an internal audit. In 2021, the Company's internal audit was performed by Katalin Csemák.

General Meeting

The Company's topmost body is the General Meeting consisting of all shareholders. The annual general meeting is in charge, amongst other things, of accepting the annual financial statements and of deciding on the utilisation of profit/(loss) for the year, electing and withdrawing members of the Board of Directors, selecting the auditor, amending the Statutes and all other decisions that have a material impact on the Company's share capital and which are conferred to the general meeting's exclusive competence under legislation or the Statutes.

Subsidiaries

On 31 December 2021, Masterplast Nyrt. had fully owned subsidiaries in 9 countries through which had an indirect share in the regions's construction industry. The Company had the following subsidiaries:

| Company name | Place of registration | Date of foundation |
|---------------------------------|-----------------------|--------------------|
| Masterplast Romania S.R.L. | Romania | 2001. |
| Masterplast YU D.o.o. | Serbia | 2002. |
| Master Plast S.r.o. | Slovakia | 1999. |
| Masterplast d.o.o. | Croatia | 2002. |
| MasterPlast TOV | Ukraine | 2005. |
| Masterplast Sp zoo | Poland | 2005. |
| MasterFoam Kft. | Hungary | 2004. |
| Masterplast Medical Kft. (1) | Hungary | 2007. |
| Green MP Invest | Ukraine | 2012. |
| Masterplast Hungária Kft. | Hungary | 2016. |
| Masterplast Modulhouse Kft. (2) | Hungary | 2016. |
| Masterplast International Kft. | Hungary | 2016. |
| Fidelis Bau Kft. | Hungary | 2020. |
| Masterplast Nonwoven GmbH | Germany | 2020. |

Indirect relationship:

| | | |
|--------------------------------|-----------------|-------|
| Masterplast D.o.o. | North Macedonia | 2002. |
| Masterplast Proizvodnja D.o.o. | Serbia | 2021. |

Affiliated undertaking:

| | | |
|----------------------|---------|-------|
| Masterprofil Kft. | Hungary | 2007. |
| T-Cell Plasztik Kft. | Hungary | 2019. |
| Master Modul Kft. | Hungary | 2021. |

- (1) Formerly Masterplast Gyártó és Kereskedelmi Kft, changed company name on 30.07.2021, based own owner's decision.
(2) Formerly Mastermesh Kft. changed company name on 03.11.2021, based own owner's decision.

Masterplast Nyrt. performs the management and coordination of the Group and ensures adequate operational background (provision of central contracts, guarantees, marketing and PR material, etc.).

Master Modul Kft. was established on 12.04.2021 with 25% ownership of the Masterplast Plc. The new company was established in order to produce modular buildings with a share capital of HUF 3 million.

MASTERPLAST Kft. (later known Masterplast Medical Kft.) established the Subotica based Masterplast Proizvodnja D.o.o., the project (supported by Hungarian State) consist of XPS production on 3,600 square-meter plant with 200 thousand cubic meters planned capacity. The plant is going to be associated with the construction of a 2,000-square-meter warehouse and a nearly 6,000-square-meter outdoor warehouse on order to have a storage facility of the right size, as well as a 400-square-foot office building for the workforce and quality control lab. The value of the Project is HUF 5.05 billion, which is going to be financed by the Company from its own resources and from a 50% non-refundable state subsidy provided under the HEPA program of the Ministry of Foreign Affairs and Trade. Production at the new plant is expected to start in early 2023. The Ministry of Foreign Affairs and Trade concluded the grant agreement with MASTERPLAST Kft. On 25 June 2021.

Company has acquired a 50% business share in Masterplast Nonwoven GmbH from BÜMO-Schrauben GmbH, which is wholly owned by Hartmut Layer, on 20 October 2021, by which the Subsidiary has become 100% owned

by the Company. The sale and purchase of the business share took place earlier than originally planned, by modifying the terms of the call option scheduled for 2023, on more favourable terms for the Company. The financing of the transaction is covered by the Company from the funds involved within the framework of the Growth Bond Program.

Plans for expansion

The Company aims to maintain a dynamic growth rate, which is planned to achieve through acquisition-based expansion, greenfield investments and organic development. Geographically, the countries of the European Union and Serbia could be the growth areas. The Company pays particular attention to identifying potential acquisition targets, where it seeks companies with the right market potential, using both internal and external resources. The aim is of the acquisitions to support the Company's development, successful operations and create synergies.

The turnover and profit increase are planned to be achieved in construction, healthcare, modular architecture, and industrial sales markets.

In 2021, the Group completed investments in production developments worth more than EUR 40 million. At the company's headquarters, new plants for the production of healthcare textiles and finished healthcare products, new logistics units were inaugurated to increase service efficiency, and the third phase of the fiberglass mesh production development in Subotica will be completed in early 2022, supporting further expansion already in 2022. The project will expand the fiberglass mesh production capacity, modernise the existing weaving and coating machinery, create a modern warehouse logistic base and a finishing department. The Group will be able to serve the market for premium products of the highest quality due to the machinery, predominantly based on German technology, and the renewed production, logistics and assembly services. The project is expected to increase the Group's fiberglass mesh production to 150 million square-meter per year, making Masterplast Group the second largest fiberglass mesh producer in Europe and the third largest in the world. The previously announced development of XPS insulation material production in Subotica is on track, with the EUR14 million investment in the plant scheduled to start production in 2023. The new plant with a floor area of 3,600 square metres will be built at the production base in Subotica, with a planned annual capacity of 200,000 cubic meters. The plant will also include the construction of a 2,000 square meter warehouse and a nearly 6,000 square meters open-air warehouse to provide adequate storage capacity.

Furthermore, Masterplast is entering the most promising and most likely fastest growing construction segment of the decade, modular architecture, as a manufacturer, responding to the challenges of the construction industry and consumer demand. The investments is planned to be financed by the Company's increased profitability, successful bond issues and government subsidies.

The Company intends to expand its activities through acquisitions and greenfield investments. As a result of this intention, MASTERPLAST ITALIA SRL is established on 12 April 2022 in Barco, Italy with a 51% share in capital of Masterplast Group. The co-founders of the subsidiary are individuals with extensive experience and business contacts in the local building materials market. The new company is established for the trading of thermal insulation materials in Italy with a share capital of EUR 200 000. The establishment of the new subsidiary will enable Masterplast to increase its presence in Italy, which has already been a major export market for the Company, besides the new subsidiary creates the opportunity of offering a wider range of products, a higher level of service and a wider geographical coverage to its existing and new Italian partners. The Italian market is currently Europe's fastest growing market for thermal insulation materials. The Company is also considering the development of production capacities and is exploring the possibilities.

The impact of macroeconomic developments

The external economic and industrial environment has a significant effect on the production and sale of the insulation and other construction materials, which are the main activities of the Masterplast. While the sale of the constructional and accessories products is mainly in relation with the new buildings market, the insulation related materials (primarily the heat insulation) depend on both the new building and home renovation markets.

European climate protection targets, tightening energy regulations and rising energy prices have had a positive impact on industry demand, and in several countries public subsidies are encouraging insulation and renovation works. Although the coronavirus and the resulting measures have not fundamentally affected the construction industry, the economic environment, which has recovered with the easing of restrictions, has also reinforced positive trends in the industry. At the same time, the shortage of raw materials and the related price increases since the beginning of 2021 have had a significant impact on the business in the Company's markets. Strategic inventory levels, own production capacity, the quality of supplier relationships, and appropriate pricing were key to success in this commodity-scarce market.

On the most significant Hungarian market, according to the data of the KSH the construction output grew by 13% year-on-year. Government subsidies (family support home creation program, housing renovation support) continued to play a key role in the favourable development of industry demand relevant to the Company, which will be complemented in 2022 by a further incentive, namely the personal income tax rebate program for families raising children. Accordingly, the Company's growth expectations for next year are particularly positive.

In Romania, construction output showed a positive trend during the year, mainly due to an increase in residential construction. The state supported the industry with tax breaks and a sector-specific raised minimum wage, while it also helps with real estate purchases through low interest rates and state guarantees. Demand forecasts for 2022 remain positive, despite the government's prospect of cutting state subsidies.

In Serbia the GDP grew in 2021, while industrial production declined slightly. At the same time, the value of construction work and the number of building permits issued in the construction industry increased compared to the previous year.

In Ukraine, the trend is improving. GDP has been on a slight upward trend since the second half of the year, and construction output has also expanded since the third quarter, thanks to residential works. The retail sector is supported by the state through the government programs "Affordable Mortgage" and "Large Construction".

In Germany, economic output growth was subdued compared to last year's base as a result of the coronavirus restrictions imposed, and construction investment also declined. Global shortages of raw materials and rising energy prices posed challenges to construction market players, improves the outlook that the industry appears to be in a favourable position among the new government's priorities.

In Poland, construction output remained below the performance of a year earlier, but the residential segment saw a significant increase in the number of constructions and permits issued in 2021. Rising raw material prices and labour prices, as well as labour shortages, make it significantly more difficult for industry players to operate in the Polish market.

Construction output in Slovakia increased slightly, although it was below the pre-pandemic performance. Hectic price changes and a shortage of goods at European level are having a negative effect on the market. The outlook for the Company and the industry will be improved by the Slovak government's Green House Program signed at the end of the year, which will have an impact on the volume of insulation work from the second half of 2022.

In Croatia, the construction sector has expanded compared to the same period last year, with both the value of construction work and the number of building permits issued rising. Croatia has also been affected by the developments due to the shortage of raw materials, which have challenged the Company in this market by resulting in strong price competition.

Demand for construction in Northern Macedonia in 2021 was positive, with the number of building permits issued and the estimated total value of construction works increasing compared to last year.

These developments are reflected by the EUROSTAT statistics on the number of home construction permits issued, which provides a percentage overview of the development in the number of construction permits per country compared to the previous year.

Percentage change in the number of construction permits 2018 - 2021:

| Country | 2018. | 2019. | 2020. | 2021. |
|----------|-------|-------|-------|-------|
| Croatia | -6,0 | 30,8 | -16,1 | 19,1 |
| Hungary | -3,2 | -3,7 | -38,1 | 35,0 |
| Poland | 3,3 | 4,6 | 3,2 | 23,9 |
| Romania | 2,6 | -0,4 | -2,9 | 24,1 |
| Slovakia | 11,4 | -0,9 | -6,5 | 5,8 |
| Serbia | 9,4 | 29,1 | 7,4 | 17,6 |
| Germany | 1,9 | 3,2 | 2,4 | 3,9 |

Forrás: EUROSTAT: Building permits percentage change

Management and structural subsequent events

As a consequence of the Russian-Ukrainian war that broke out in February 2022, the Company temporarily shut down its operations in Ukraine. Through direct involvement, the Company is paying special attention to its Ukrainian subsidiary and to helping people affected by the war, providing support to help employees and their families find safety, while also trying to protect the Company's assets in the best way possible. In response to the refugee crisis, the Company has organised solidarity actions in the form of relief consignments of its own products, consisting of foam mattresses for temporary sleeping accommodation and sanitary products to maintain hygiene.

On 12 April 2022, MASTERPLAST ITALIA SRL was established in Italy, with 51% ownership by the Company, for the trade of thermal insulation materials in Italy. The co-founders of the subsidiary are individuals with extensive experience and business contacts in the local building materials market. The development of the sales and support organisation has started. The Company has entrusted this to Illés Jancsó, who is the managing director of MASTERPLAST International Kft., the Company's export arm (including the Italian market) and also the head of the health care business. He has considerable management and business experience.

In 2022, the Company will focus on strengthening the Masterplast organisational culture. It has organised workshops throughout the organisation, with the aim of deepening corporate values, and has introduced traditional events to this end.

Integration programmes continue for training colleagues arriving in new factories.

The Company's long-term strategy

At the end of 2019, the Group developed its vision for 2030. According to the vision, the Company sets milestone at the end of each year, until the end of the next strategic period and then updates the main directions.

The Company has set out two main directions in its vision, as follows:

- As a dominant environmentally conscious European manufacturer, we will contribute to energy efficient buildings.
- As a healthcare manufacturer, we serve a healthy society with modern hygiene products and solutions.

The Company aims to maintain a dynamic growth rate, which it plans to achieve through acquisition-focused expansion, greenfield investments and organic development. Geographically, the countries of the European Union and Serbia could provide growing opportunities. The Company pays particular attention to identifying potential acquisition targets, where it seeks companies with the right market potential, using both internal and external resources. The aim is of the acquisitions to support the Company's development, successful operations and create synergies.

The turnover and profit increase are planned to be achieved in construction, healthcare, modular architecture, and industrial sales markets.

In the construction sector, the Company expects positive trends in the construction insulation markets in the coming period, both for new builds and second-hand properties. These trends are supported by tightening energy regulations and rising energy costs, on the one hand, and by positive demand effects from government incentives, on the other. The Masterplast Group's distributor subsidiaries serve building materials retailers, purchasing companies and DIY chains. The structure of the building materials trading sector varies from country to country, and therefore each market requires a specific sales policy to ensure the highest market share and profitability. Markets without a subsidiary are served through export departments, which the Company presents as export sales. The aim is to have strong local strategic partners representing Masterplast's products in the respective market. The development of export activities will ensure the strengthening of the market position of fiberglass mesh and roofing membranes and the increase of the market share in these segments in the countries of the European Union. A broad product range and a developing manufacturing base will ensure increasing competitiveness. The main value propositions for partners are security of supply, stable quality, product certifications and value for money.

Within the construction sector, Company's development focuses on the insulation industry. In this area, the Company plans to expand its manufacturing portfolio related to product areas where it a significant market share in sales is controlled by the Company, but does not have its own production. In the future, the Company plans to produce thermal insulation materials that will also play a role in future construction technologies. The role of recyclability in the insulation industry is planned to be enhanced. The Company currently collects and recycles its insulation material (EPS and XPS) cuttings under the Hungarocell green programme. In the future, the Company plans to develop insulation systems to expand its green product portfolio, which will allow for the long-term degradation, collection and recycling of insulation materials. The Group also intends to further develop its manufacturing and sales capabilities to meet the growing future energy expectations of the market and regulators. The Company is also reorganising its manufacturing and business processes, with a focus on reducing waste and harmful emissions, specific energy consumption and the use of an increasing share of renewable energy sources. Automation and robotisation will become an important aspect of future investments and developments in production and sales. Effective use of multi-legged, wide-range supplier relationships will ensure that growing manufacturing and sales requirements are smoothly satisfied.

As a new participant, the Company aims to develop and scale up its healthcare business, both in terms of raw materials and finished products. The Company plans to rapidly ramp up the output of hygiene textile raw materials in Hungary. Finished product portfolio of protective clothing, sheets and sanitary incontinence products are planned to satisfy domestic and international demand. The aim is to establish an effective market presence by acquiring extensive market and product knowledge and to build up the distribution chain in the short-term future. The favourable geographical location of the production units will help to identify potential partners, markets and maximise business opportunities. The Company plans to expand its turnover through sales of its own Masterplast Medical branded products and through supplier partnerships. Masterplast's priority is to find solutions for the recovery and recycling of healthcare products.

The rise of modular construction is supported by a shortage of skilled workers, rising labour costs and the need for predictability. The customer demand is also increasingly open to non-traditional building solutions, the functionality, sustainability and recyclability of the buildings will be the key value factors for the new generation, and not the type of building materials and the method of construction. Modular construction results the industrial production of building units with a high apportion of finished construction steps. The benefits of modular construction are mainly seen in high-volume production, where the use of standard designs and solutions reduces unit design costs, optimises production processes through factory production and improves procurement by the usage of standard materials. The Company's aim is to become a major player in this rapidly developing market as a preferred partner for general contractors of modular architecture in Hungary.

The Company is continuously reviewing its portfolio of products suitable for industrial production. It is focusing on leveraging its manufacturing expertise to develop and manufacture products for other industries. The Company currently manufactures foam foil products for packaging applications. The non-woven textile products of the Aschersleben plant, which has been integrated into the group through the acquisition, are suitable for the filtration, furniture, clothing, packaging and agro-industry. Fiberglass mesh can be used to make composite materials, fabrics to reinforce plastic products can be used in the automotive and marine industries, and composite materials for the construction industry can be used in facade cladding systems and building panels.

Within the framework of the Company's organizational and human strategy, Masterplast stated that a company is only capable of achieving success if it has ability to change and adapts rapidly and has increased agility. The goal is to increase the density of talent in key positions, to employ the most talented, motivated employees with outstanding performance for the given jobs. Creating a more lovable, flexible workplace, strengthening your employee brand, and increasing ability to engage and retain.

As part of its digitalisation and online strategy, the Company focuses on supporting web-based sales and plans to transform and digitalise its business processes to enable faster, more efficient and less human intervention. The Company pays particular attention to ensuring that all elements of the corporate culture are communicated, known and accepted by all employees of the Masterplast Group. The aim of senior management is to reinforce this culture through authentic, exemplary behaviour and the continuous involvement of colleagues.

Bond Program

The Company issued a total of 9 billion HUF nominal value of bonds under Growth Bond Program in December 2021 announced by the National Bank of Hungary to refinance existing loans, which provides a stable source for its ongoing and future investments. The Company temporarily used the borrowed funds to refinance part of its short-term loans, as a result of which the amount of short-term loans decreased, and the Group's liabilities related to bonds in the balance sheet increased.

Treasury shares data

The company form is a public company limited by shares. At the balance sheet date, the Company had 205.000 pieces of dematerialised treasury shares.

Research and development activities

In 2021, developments within the Company continues to focus on the production of its own building materials, with a particular focus on roofing foils and fiberglass mesh, and on the production of healthcare products, launched during the year.

In the roof foils product area, the development started in the previous year continued, building on the technological capabilities of Masterplast Nonwoven GmbH in Germany, which joined the Group. The Company has been working on the development of a roofing foil product range, where it can take advantage of the production technology with an end product with excellent value for money, high heat and aging resistance properties for its traditional customers and future large customers - e.g. at tile factories.

The main focus in the glass fibre product area, in addition to improving production efficiency, has been to broaden the supplier base by developing new recipes and products. In addition to increasing efficiency, quality indicators have been further improved.

Due to the pandemic, there was a significant demand for protective overalls developed, certified and manufactured by Masterplast, including the special raw material of Masterplast Nonwoven GmbH. During the year, several types of protective overalls were developed and certified by the Company for different protection grades. In the second half of 2021, the production of healthcare fleece products was launched in Sárszentmihály, and in the last quarter of the year, the Group added its own tailoring and sewing capacity and the production of special incontinence sheets. As a result of these investments and developments, the Group has significantly expanded its healthcare manufacturing capacity and product portfolio. All this gives Masterplast the opportunity to expand its presence in the healthcare sector beyond just Covid-19 devices.

The developments have been carried out using in-house resources and with the professional support of suppliers. The Group intends to continue the development work related to manufacturing and strategic products in the coming years.

Overview of premises

In 2021, the largest construction project in the history of Masterplast was completed at the company's site in sárszentmihály. On the 22 169 m² GIP 1 zoned property, which was annexed to the site in the previous year, a 5 144,3 m² manufacturing unit specialising in the production of healthcare textiles and finished products, and a 2 390 m² warehouse were built. In addition, a 2 500 m² warehouse was built. In October 2021, the Company obtained a valid occupancy permit for the buildings. The Company's building stock in Kal has not changed.

The Group owns 360 thousand m² of land, nearly 6 thousand m² of offices, 28 thousand m² of production halls, 64 thousand m² of warehouses and 104 thousand m² of parking and roads.

The buildings, utilities and paved areas of the sites are constantly maintained and upgraded.

The ISO 9001:2015 quality management system standard and the ISO 14001:2015 environmental management system standards have been implemented at the site. ISO 50001:2011 Energy Management System Standard was successfully renewed in 2021.

Environmental protection

The Corporate group's operating area, sales, logistics and production facilities is not considered as environmentally hazardous technologies or key risk operations. That said, as a responsible corporation, the Company complies with the applicable environmental protection requirements, and strives to think and operate of the curve in numerous areas without substantially increasing its costs.

The Company applies conscious waste management at its premises, including selective waste collection and in-house recycling.

In 2021, Masterplast successfully continued the Green Hungarocell Program in Hungary, which means the organization and operation of the polystyrene collection system in accordance with the circular management unique in the building materials industry. Masterplast collects the cuttings of the polystyrene products it supplies during construction and finishing through its Ökopont partner network and recycles 100% of them, reusing them to produce thermal insulation material - thus significantly reducing the amount of waste on site.

In both its logistic and production operations, pay close attention to energy consumption, which is both an economic aspect and reduces CO₂ emissions. In terms of transportation capacity, in 2021 the replacement and modernisation of fleet and internal logistic assets continued.

Masterplast Nyrt. applies the ISO 50001:2011 Energy management system standard at its Sárszentmihály location and has continued the operation of the Energy management systems in its Hungarian subsidiaries.

Risk management policy

Total credit risk

The Group supplies goods and services to numerous customers. Given its contract volumes and the creditworthiness of its customers, the Group does not face any significant credit risk. The control mechanisms in place at the Group's subsidiaries, operated according to its international receivables management policy, ensure that sales are only made to customers with a sound financial background in order to decrease the Group's credit risk.

Loans provided by the Company's bank are assessed at a group level, which includes the risk of performance related assessments for subsidiaries. In order to autonomously fund their operations, subsidiaries also borrow from their local banks in the form of investment and working capital funding loans.

The largest amount that can potentially be exposed to credit risk is the balance sheet value of financial assets, including transactions decreased by impairment included in the balance sheet.

Interest rate risk

The Group's management deems that the interest rate risk stemming from variable interest rate loans is not significant as the adjusted interest amounts defined by banks in the wake of the financial crisis are not as substantial and can be covered from the Group's operating profit.

Liquidity risk

The Group's liquidity policy requires to hold sufficient liquid assets and available credit lines to implement its Financial Strategy. On 31 December 2020, the Group had HUF 21 billion (EUR 56,8 million) bonds issued. With the bonds issued within the framework of the bond program launched by the MNB, the Group provides adequate solvency and financial flexibility to achieve the Group's strategic goals.

Geographic risk

The majority of subsidiaries constituting the Group is located in Central Europe, but the Group also has subsidiaries in Ukraine. This relative dispersion nevertheless does not pose much risk as the Corporate Group has created local groups (regions) to oversee and improve subsidiary operations. These local groups are managed and overseen by specialised regional management.

Country risk

The Group's activities and success were shaped by the political, macroeconomic and general sovereign financial situation in Central-Eastern, South-Eastern and Eastern European countries. Potential changes in the political and macroeconomic environment may have a negative impact on the Group's activities and its profit generating capacity.

Exchange rate risk

Masterplast procures its products primarily on a USD and EUR basis and sells them in the local currency of its subsidiaries, which creates currency exposure for the Group. As the currency of the majority of the Group's country portfolio is euro-based (with the exception of the Ukraine), fluctuations in local currencies relative to the euro and fluctuations in the EUR/USD exchange rate for products procured based on the USD impact the exchange-rate effect of its trading activities.

Exchange rate risk is managed by Masterplast centrally at the Group level and at the subsidiary level under the coordination of the parent company's CFO. The optimal coverage strategy is defined as part of annual financial planning and is implemented by the Group's following approval.

The entities in Hungary have working capital loans disbursed in euro and the Serbian subsidiary has a euro-based investment loan.

Taxation risk

The Group constantly monitors and keeps track of changes in statutory regulations, and if legislative changes that affected the Group are adopted, it immediately takes the necessary measures and creates or changes its rules of procedure. As a result, there are no significant taxation risks identified by management.

Management of capital risks

- **Dividend policy**

If the Group is unable to find development and acquisition targets to fuel its growth, it may pay dividends to its shareholders based on an individual Board of Directors decision, given adequate profitability.

- **Raising capital**

Masterplast Plc did not issue new shares in 2021 however Masterplast may secure funding by raising capital in the future to implement its future strategic plans. The Company, with the exception of individual cases, does not plan to raise capital for its subsidiaries with shareholder approval, and funds increases in equity from annual profits.

- **Optimal capital structure**

With the capital raised in 2018, the Group's equity/liability ratio improved significantly, which it intends to maintain in the future in an effort to reduce liquidity risk (stemming from unpredictable money markets).

- **Maintaining operability**

In order to maintain its smooth financial operability, the Group continuously strives to postpone and extend the payment deadlines of contracts and transactions with its suppliers in an effort to offset late payments from its customers.

Ethical norms

The Group pays special attention to observe the human rights, fight against corruption and prevent bribery. The Group have a Code of Ethics, which covers the followings:

- Regarding to the clients, among other things, to protect information, regulate fair business, handle conflicts of interest, business gifts, representation, and hospitality control, and the prohibition of bribery and corruption.
- Regarding to the employees of the Group or its affiliates, communication between the employees, contact with the management, non-discrimination, work-related requirements, protection of values, labor health and safety issues and health protection.
- Regarding to the shareholders of the Group, among other things, the prohibition of insider trading, the handling of confidential information held by the Group, the protection of corporate property, and the intellectual properties of the Group.
- In relation to the Group and the society, public participation, prohibition of child and forced labor, corporate social responsibility and environmentally awareness.

The Code hfp audit system. The internal auditor brings into focus the respect for human rights, the fight against corruption and the prevention of bribery. Any abuses or breaches of the rules can be reported to the internal auditor in an anonymous manner by employees or other stakeholders. The internal auditor reports her work to an independent Audit Committee.

Short-term plans

In 2021, new plants for the production of healthcare textiles and finished healthcare products, with tailoring, sewing and specialised incontinence sheet production capacity, were established at the company's headquarters. As a result of these investments and improvements, the Group has significantly expanded its healthcare

manufacturing capacity and product portfolio. All this gives Masterplast the opportunity to expand its presence in the healthcare sector beyond just Covid-19. In short term, the Company's objective is to rapidly ramp up its healthcare business and to build up its distribution chain in short term by selling Masterplast Medical branded products.

The Company's short-term tasks include the construction, testing and integration of manufacturing machinery in Subotica. The third phase of the fiberglass mesh manufacturing development will be completed in early 2022, supporting further market expansion during following year. The previously announced XPS insulation material production development in Subotica is on track, with the EUR 14 million investment in the plant scheduled to start production in 2023.

In response to the challenges of the construction industry and consumer demand, Masterplast is entering the most promising and likely fastest growing construction segment of the decade, modular architecture, as a manufacturer. The modular house business is planned to enter the initial investment phase in 2022, with the aim of designing and licensing building structures and establishing manufacturing capacity.

The European Union is providing significant government funding for building energy renovation programmes to meet climate change targets, which have become even more important since the outbreak of the war between Russia and Ukraine. The REPowerEU package measures - adopted in response to the war - handles the renovation of Europe's building stock as high priority, alongside the provision of alternative sources of gas and investment in renewable resources. Meanwhile, increased prices are likely to have a negative impact on the new housing market in the upcoming years, the Group expects the renovation market to reach higher levels than previously estimated in the company's markets, which have already been performing well in the past, thanks to renovation subsidies and other incentives. Currently, Italy has the fastest growing insulation market in Europe, booming market at the end of 2021, resulted by the super-bonus state scheme. In order to provide its existing and new Italian partners with a wider range of products, higher quality services and to cover extended markets, new subsidiary was established in April 2022, with a 51% share in capital of Masterplast Group. The development of the sales and supporting function organisation has started. The Company is also considering the development of production capacities and ongoing search for opportunities. Management's ambition is to make Italy the second strongest subsidiary of Masterplast Group, following Hungarian operation by 2023.

Stable supply chain, investments in manufacturing and development already provided a strong financial background and, last but not least, an agile organisational culture ensures a solid basis for the Company's further and sustainable growth. According to the medium-term profit forecast published in January 2022, Masterplast set target of achieving another level in its profitability, with a turnover of more than €300 million and profit after tax of €26 million in 2024.

Corporate Social Responsibility

According to Masterplast's *ars poetica*, only a successful corporation can allow itself to help others. As such, the Group has supported its environment since its establishment.

To make sure that help ends up in the right hands at the right time in a transparent manner, Masterplast implements its corporate social responsibility programme based on carefully defined principles. Therefore, the Corporate Group adheres to strict ethical norms when making donations and expects the same of all of its employees. Decisions regarding donations are made based on professional, strategic and ethical principles. The Company strives to create its charitable work strategy, so that it benefits both society as a whole and the Group by creating value.

The company's giving practices focus on programmes that support children's well-being and help them to lead fulfilling lives. In addition, children's awareness is important to Masterplast, which is why it supports programmes in which schools organise or develop special programmes, such as tree planting or bird rescue programmes, to encourage sustainable development and environmental conservation. The Group is also keen to support initiatives to educate local communities about healthy sports and to promote healthy lifestyles.

The Group attaches great importance to participating not only as an employer in the economic and social life of its local community, but also as a supporter of foundations and associations that take on a social role. Masterplast has been a supporter of the Hungarian Children's Rescue Foundation since 2015, and from 2020 it has become the main supporter. The Company will support the work of the Foundation with targeted financial donations, extensive marketing support and professional and product support for the construction works of the Foundation.

The Company joined the KÉPES programme as a supporter; the programme was created in 2013 by a group of Székesfehérvár-based companies and the municipal government of Székesfehérvár. The KÉPES programme, or the Community Value Creation Programme — Together for Székesfehérvár! [Közösségi Értékteremtő Program – Együtt Székesfehérvárért!] aims to come up with solutions that create lasting value for the local community as a joint effort between the business world and the municipal government. Masterplast provides product and expert support for the program's projects and its employee team contributes with voluntary work.

The company's core business of improving the energy efficiency of buildings is closely linked to the achievement of climate protection goals and the creation of a sustainable future. For Masterplast, it is of utmost importance to transfer green thinking into construction practice, which is why in 2020 it launched the "Hungarocell Green Program" initiative, the first in the Hungarian construction industry to implement a circular economy model. The aim of the programme is to ensure that the residues generated by the use of the insulation materials sold by the company do not generate environmentally harmful waste, but are recycled and reused as insulation materials, reducing the energy demand and carbon footprint of buildings throughout their life cycle.

Corporate governance

The Consolidated Annual Report drawn up according to the applied accounting requirements provides a true and accurate overview of the assets, liabilities, financial situation and earnings of Masterplast Nyrt. and its undertakings included in the consolidation. Moreover, the Annual Report gives a reliable picture of the situation, development and performance of Masterplast Nyrt. and its undertakings included in the consolidation, presenting the main risks and factors of uncertainty.

The Group will do its best to operate in accordance with the statutory and regulatory requirements and in line with the principles of ethical business conduct. Therefore, the Company places particular emphasis on the corporate governance recommendations of the Budapest Stock Exchange in its day-to-day operations and regulation. The documents available on the following website:

https://www.masterplastgroup.com/document_folder/tarsasagiranyitasi-dokumentumok/.

Equal opportunity and diversity

The Size of the Group does not justify the application of Diversity and Employment Policy, but the Group pays great attention to the diversity of cultural and social environments, as well as the diversity of employees, varying from country to country. Takes care of non-discrimination and equal opportunities and equal treatment.

Masterplast Employee Shared Ownership Program

Masterplast Nyrt. established the MASTERPLAST Employee Shared Ownership Program on 14 December 2016. The MRP organization is based in: 1062 Budapest, Andrássy út 100.

Masterplast Nyrt. (Founder) has established the MRP organization to efficiently conduct incentive remunerations related to Masterplast's business goals (Participants).

The Participants of the MRP in 2021 were the employees of Masterplast Nyrt. and of by 100% controlled Masterplast Kft., Masterplast Hungária Kft., Masterplast International Kft. and Masterfoam Kft, where the Company's Remuneration Policies are applied and covered. The Founder assigned those leaders of the aforementioned companies to the Participants, who had the greatest impact on the achievement of the company's business goals set out in the Remuneration Policies.

Subsequent events

As a consequence of the Russian-Ukrainian war that broke out in February 2022, the Company temporarily shut down its operations in Ukraine. The potential impact of this on the Group's profitability is considered to be marginal, given the proportion of the territory involved. In the medium term, for Masterplast as a long-established producer of building materials and insulation materials in the Ukrainian market, the business potential in the reconstruction of Ukraine could compensate for the loss of income during the war.

War also has a significant impact on the wider operating environment. Masterplast has no Russian exposure, either on the raw material sourcing or on the customer side, so the sanctions on Russia do not pose a direct threat to the Group. At the same time, the indirect effects of the war are causing disruptions in supply chains, leading to further increases in raw material prices and supply difficulties for economic operators. The company is working with high stocks of raw materials to mitigate these difficulties. Its strategic inventory and diversified supplier portfolio ensure business continuity and maintain high service levels. Further increases in energy prices and high inflation will have a significant impact on operating costs. Increased prices are likely to have a negative impact on the new housing market in the coming years, but the Group expects the renovation market to be even more buoyant than previously expected. The REPowerEU package of measures adopted by the EU in response to the Russia-Ukraine war to help the EU become less dependent on Russian fossil fuels prioritises the renovation of Europe's building stock alongside the provision of alternative gas sources and investment in renewables.

Against this background and based on the information currently available, the Group's business continuity is assured and its liquidity is stable for the 12 months following the balance sheet date.

On April 12, 2022, MASTERPLAST ITALIA SRL was established with 51% of the Company's shares in Barco (Bibbiano, Reggio Emilia, Via Nazario Sauro 58/A CAP 42021), Italy. The co-founders of the subsidiary are individuals with extensive experience and business contacts in the local building materials market. The new company was set up for the distribution of thermal insulation materials in Italy with a share capital of EUR 200 000. The establishment of the new subsidiary will enable Masterplast to increase its presence in the Italian market, which is already an important export market for the Company, to a new level. The Italian market is currently the fastest growing market for insulation materials in Europe

Summary

Favourable construction demand, raw material supply constraints and price rises characterised the market in 2021, where Masterplast, leveraging its stable supply chain, efficient inventory policy and strong market position, achieved an outstanding result. Sales increased by 56% compared to last year's base, driven by price and volume growth in core business sales and sales of protective clothing in Hungary. The Group's trade margin also increased, thanks to a solid performance in the construction segment and higher profitability in the sale of medical protective clothing. The profitability of the subsidiaries, the capacity utilisation of the company's production units and production efficiency also improved. Taking into account the change in inventories, the cost of materials and services increased by 51% compared to a 56% increase in sales. The operation of the Aschersleben plant and the new production units at the headquarters site led to an increase in personnel costs and depreciation.

As a result, EBITDA doubled to more than EUR 22 million, while profit after tax of EUR 16 million was almost 2.5 times the base year performance and earnings per share (EPS) rose to EUR 1,10. Positive industry trends, Masterplast's strong market and economic position, stable supply chain, manufacturing background and investments provide a solid business base to achieve the Company's published strategic sales and earnings forecasts.

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